The workers are marching, but not where you think

WHILE you were too busy trying to make a profit in a sluggish economy, the labour market around you has been steadily changing. Now is the time to sit up and take note – it is a different world out there and it impacts on you.

New data from the SA Reserve Bank (SARB) indicate surprising changes in our labour market:

- Firstly, labour productivity is increasing at a remarkable pace. This is a significant break from the past, as SA has always performed poorly on this score.

During the Seventies, for instance, labour productivity increased by an average of 0.27% per year, meaning a total of 2.75% was notched up in the entire decade. But if you think that was bad, think again -- worse was to come. During the Eighties, productivity increased by an annual average of only 0.18% for a cumulative total of 1.87% in ten years!

The trend break came halfway through the Nineties. Between 1995 and 1999 productivity increased at an average rate of 4% *per year* and reached an all-time high, for South Africa, of 6.2% in 2000.

It is, of course, no coincidence that the improvements started in the mid-Nineties. After the profound shift brought about by the 1994 election and change of government, two developments had a direct impact on labour productivity:

- As sanctions and isolation were lifted, the SA economy was increasingly reintegrated into the world economy. That meant more competition, better technology, new management approaches, different work practices … the list goes on.

- Secondly, the new government embarked on an aggressive lowering of import and protection tariffs. This caused enormous hardship. Many businesses went under; thousands of people lost their jobs. Entire industries came close to being wiped out. Textiles and shoes are two examples coming to mind. BUT: the upside of this pain was improved efficiency and rising productivity.

The inevitable result of higher productivity is a lower demand for labour. Unfortunately for our job-creation needs, it cannot be otherwise. To provide a simplified example: If two people make ten items per day, and productivity improves so much that one person is capable of making those ten items in a day, then labour productivity has increased sharply -- but if the market has not doubled at the same time, one person has become redundant.

In this sense, the trade unions are right. Their members do not gain much from rising productivity. Certainly not in the short term. Over time, of course, rising productivity leads to increased demand for other goods and services. Jobs will therefore be created in other sectors of the economy.

Our retrenched worker, made redundant when his colleague produced those ten items on his own, may then very well find employment elsewhere.

The problem, of course, is the time lag. It takes some years for the economy to adjust. If you happen to be unemployed during those years, no fancy theory of growth through rising productivity is going to make you feel any better.

- And that brings us to the second change in our labour market -- employment trends. For the first time since 1994, formal employment in the private sector increased during the last quarter of 2000, albeit by the relatively small number of some 7’000 jobs. We shall have to wait and see whether this can be sustained in 2001, but the latest figures do indicate a break in the trend.

At the same time, the public sector is shrinking. Employment in general government (the national government, the nine provinces, 350 local councils and a range of statutory bodies) fell by 3.6% from 1999 to 2000. The four main public corporations (Transnet, Telkom, the Post Office and the SABC) saw their employment numbers decrease by 8.5%.

As a result, SA now has a shrinking public sector and a slowly expanding private sector. And what we need now, is more of the same.

Preliminary indications are that the public sector will continue to become smaller. Hopefully the private sector will continue to expand.

The rate at which the gross domestic product (GDP) grows, in relation to the number of people in the economy, is relevant here.

SA is now growing at the 3% level. Last year it was 3.1% and according to Sanlam's Jac Laubscher it could be 2.8% this year and more than 3% again next year. At the same time, the population is now growing at only about 1.5%.

This is the first time in about a quarter of a century that economic growth is outpacing population growth on a sustained basis. Last year, per capita income increased for the first time in years.

Not bad. Not good enough either, but certainly better than we sometimes allow ourselves to think.

- The third significant change in the labour market concerns the costs of labour. According to the SARB, wage and salary increases in 2000 were the lowest in 30 years. The result is that unit labour costs increased by only 2.3% during the year -- lower than the 2.8%

recorded in 1999 and one of the lowest figures since the Seventies.

This has several implications, one being that not much pressure on inflation is coming from the labour market. Another implication is that the unions have lost much of the power and influence they once had.

Which is probably part of the reason for their calling of a two-day strike against privatisation for this month. If they are losing power in one area and cannot rebuild it, they need to gain it somewhere else.

But I am happy to wager a bottle of single malt that they will lose the privatisation debate as well.

These three features -- rising productivity; rising employment in the private sector combined with lower employment in the public sector; and lower unit labour costs -- combine to render a more efficient and productive economy.

If we can push economic growth beyond 3% while population growth remains at 1.5%, we will begin to make sustainable improvements to our per capita income. For the first time in about 25 years, this will bring real improvement to the average South African's quality of life.

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